

**Madison County, Tennessee**

**Finance Department**

**Policy and Procedures**

**Subject: General Fixed Assets**

**Policy No:**

**Effective**

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**1. Purpose**

The purpose of this policy is to provide guidelines for the control and reporting of fixed assets purchased, constructed or otherwise acquired by Madison County (the "County") in accordance with Governmental Accounting Standards. Further, this policy shall provide the framework for financial reporting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

**2. Scope and Applicability**

These policy and procedures shall apply to all departments and constitutional offices of Madison County. These policy and procedures shall not apply to Jackson-Madison County General Hospital and the following component unit of Madison County: the Madison County School Department. This entity shall be subject to policies and procedures promulgated by their governing body. However, it is expected that the policy and procedures adopted by these entities shall correlate with this policy for purposes of financial reporting in accordance with Governmental Accounting Standards.

This policy applies to all fixed assets purchased, constructed or otherwise acquired by the County. Fixed assets shall include but are not limited to land and land improvements buildings and improvements, machinery and equipment, furniture and fixtures, roads, bridges, and other infrastructure.

**3. Responsibilities**

The Finance Department shall administer these policy and procedures under the direction of the Financial Management Committee. Purchasing, accounting and reporting functions related to fixed assets shall be performed by the Finance Department under the direction of the Finance Director and Purchasing Agent.

However, full cooperation from all departments and constitutional offices of Madison County in the implementation of these policy and procedures is essential to effective internal control and reporting in accordance with Governmental Accounting Standards. Further, each department head and constitutional office official shall be responsible for the proper physical control over all assets acquired and held by his/her office.

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*Specific Responsibilities*

**A. County Departments and Offices**

1. Designate a knowledgeable employee as Property Custodian. The name of this individual shall be submitted to the Finance Department for direct communication purposes. The Property Custodian shall be responsible for maintaining internal control over department inventory records and acting as the department's liaison with the Finance Department.
2. Allow Finance Department personnel access to all records necessary to aid in the determining of proper accounting and reporting of fixed assets.
3. Assist the Finance Department with the maintenance of a listing of fixed assets for which the department or office is held accountable.
4. Timely tag newly acquired property and equipment.
5. Report the theft of property, immediately, to the Sheriff's Department. The loss of property should be reported to the Finance Department in the manner prescribed in this policy.
6. Provide timely notification of any assets deemed to be surplus or damaged to the Finance Department in a manner proscribed by this policy.
7. Provide requests for transfers of property and equipment to the Finance Department in a manner proscribed by this policy.
8. Provide assistance to the Finance Department during the performance of periodic inventories as well as the internal auditor.
9. Respond timely to audit inquiries made by the Finance Department in conjunction with periodic inventories and maintenance of fixed asset records.

**B. Finance Department**

1. Maintain inventory listing of all assets held by the County as described in Section 2 of this policy. Input all relative information of newly acquired fixed assets into the fixed asset database of the County.
2. Process fixed asset dispositions upon proper approval by the Property Committee, including the removal of identification tags prior to asset disposal or sale.
3. Internal Audit will conduct periodic audits and physical inventories of all departments and offices to ensure compliance with these policy and procedures and proper accountability. Also, provide result of such audits and inventories to department heads and officials and the Financial Management Committee.

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4. Ensure proper accounting and reporting of fixed assets in accordance with Governmental Accounting Standards.
5. Assist the State Comptroller's Office, Division of County Audit with year-end audit procedures related to fixed assets and financial reporting.

**4. Accounting Policies**

**Capitalization**

All fixed assets purchased, constructed or otherwise acquired shall be capitalized in accordance with Governmental Accounting Standards subject to the criteria detailed below.

*Items Subject to Capitalization*

- All real property, including land and buildings.
- All land and building improvements that do not constitute repairs and maintenance.
- All roads and bridges.
- Machinery, equipment, furniture and fixtures subject to the dollar value and life expectancy criteria listed below, including equipment acquired through capital lease arrangements.
- Construction in Progress.

*Capitalization Threshold for Buildings, Machinery, Vehicles, Equipment, Furniture and Fixtures*

All buildings, machinery, vehicles, equipment, furniture and fixtures with an original value of \$15,000 or more and a life expectancy of more than five years, infrastructure with an original value over \$50,000. Original value shall be determined as follows. Fixed assets shall be recorded at historical cost or if the cost is not reasonable determinable, at estimated cost. Donated fixed assets should be recorded at their estimated fair value at time received.

1. **Actual Cost**—this will include not only the purchase or construction cost (which can be obtained throughout invoice, purchase order and warrant paid files) but also charges necessary to place the asset in its intended location. This includes cost such as freights and transportation, site preparation expenditures, professional fees and legal claims directly attributable to asset acquisition.
2. **Estimated Cost**—this will be based on as much documentary evidence that can be found to support the cost such as interviews with personnel and price level adjustments for each asset.

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3. **Donated Cost**—these assets will be based on their estimated fair value at time of acquisition. A determination as to be the fair value basis will be included with property records.

#### *Capitalization Threshold for Land*

All land will be recorded at cost (\$1.00 up).

#### *Controllable Assets*

Controllable assets are assets which do not meet the capitalization threshold above but which maybe inventoried for control purposes. Due to their nature, these assets may be particularly susceptible to theft or misappropriation. Examples of such items include computers and peripherals, cell phones, printers, fax machines and other electronic equipment.

A record of each qualifying asset shall be maintained in the fixed asset database. Each record shall include the following: description location, acquisition date, expected life, original value, and any other information deemed appropriate by the Finance Department.

#### Reconciliation of Fixed Asset Records

The cutoff for the fixed asset records shall be June 30 of each fiscal year. This will permit the Finance Department to close the books at year end in a timely manner.

The fixed asset database and related records shall be reconciled to the general ledger at least quarterly.

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#### **5. Use of County-owned Property and Equipment**

County-owned property and equipment is to be used by County employees in their performance of County business and assigned duties. County-owned property shall not be used by employees for their own personal use and shall not be lent to non-employees or outside organizations. It is contrary to County policy for anyone to remove County property and equipment from County premises for any purpose other than county business with advance authorization for the County Commission, County Mayor or other appropriate oversight body.

#### **6. Surplus Property**

The following shall be the procedures for declaring and handling surplus property.

1. The department should submit a list of items to be declared surplus to the Finance Department. The list should include the item's description and number of items of similar type.
2. All departments will submit items to the Finance Director, who will in turn submit the items to the Property Committee for the purpose of declaring them surplus.
3. Approved surplus items shall be appropriately identified as such in the fixed assets database of the Finance Department.
4. As Tennessee Code Annotated provides, (T.C.A. 49-6-2007), the County should sell all surplus to the highest bidder after advertising in a newspaper of general circulation or other means.
5. The bidder is responsible for removing the equipment from the premises within ten days of award notification. If the property does not sell, the County will dispose of or destroy the equipment.

#### **7. Theft of Property**

Any theft of property must be reported immediately upon discovery to the Sheriff's Department. The department should also promptly notify the Finance Department of the loss. A copy of the officer's report should accompany the notice. The Finance Department shall take appropriate

action for removal of the stolen property from the fixed assets database and shall report the theft to the Property Committee in connection with periodic inventory results.

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## **8. Roads and Bridges**

The roads and bridges that are owned and/or maintained by Madison County fall under the responsibility of the Highway Superintendent's office in the Madison County Highway Department. The Highway Department is audited separately by the State Comptroller's Office.

The Finance Department will receive the Highway Department's road and bridge books whenever they are updated, and will keep an inventory listing on the fixed asset inventory program. Aside from spot-checking a representative sample of roads and bridges for the accuracy of dimensions and for the presence and legibility of bridge serial numbers, the Finance Department will not do any detailed inspections, as the state inspectors inspect every road and bridge every year.

Cost estimates for bridges and roads will be calculated in accordance with a separate, schedule of rates by road and bridge classification that is acceptable to the State Comptroller's Office.

The problem inherent to estimating the cost of building roads is that construction cost change constantly. Some of the roads in Madison County were initially built decades ago. Older roadways have been resurfaced dozens of times, had old surfaces scraped off, and roadbeds widened, had their courses changed, and the like. In short, every road has its own complex history which makes calculating an exact actual cost impossible.

Roads must be resurfaced and generally maintained periodically. These estimates are based only on current construction cost, but the problem is somewhat alleviated by the fact that almost all roads have been resurfaced in the recent past. The result is a necessary mix between historical costs and replacement costs.

Only bridges with a 20' span-length or greater will be inventoried. Bridges that have less than a 20' span-length are considered in the road cost estimates. Bridges, unlike roads, are not constantly renovated or maintained. Consequently, the cost estimate should then be based more on the historical cost of construction. When historical cost is not readily available, an average cost method may be utilized. Estimates for subsequent years will be received from the Tennessee Department of Transportation before each Finance Department inventory update so that new bridges can be added at their current cost.

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## **9. Inventory Procedures**

### *Periodic Inventories*

Generally, all County locations shall be inventoried at least once annually. Sites shall be inventoried on a rolling schedule throughout the year. Internal Audit may, at its discretion, publish a calendar of tentatively scheduled inventories by location. Dates on the schedule are subject to change depending upon staffing availability. Generally, sites should be notified at least one week prior to the scheduled inventory date.

Each department's property custodian shall assist the inventory team in identifying and locating qualifying assets. Further, the property custodian shall, upon request, provide support for property acquired, declared surplus, transferred, or disposed since the last inventory.

Within thirty (30) days of completing the site inventory, Internal Audit shall furnish preliminary inventory results to the department head or official. The department head or official must respond in writing to all recommendations, findings and inquiries, including missing assets and incomplete data, within ten (10) business days. A lack of response by the department head or official within the prescribed time period shall result in the assets being reported as "missing". Within thirty (30) days of receiving the department head or official's response, a final report shall be issued to the department.

Inventory results for all County locations shall be presented to the Financial Management Committee and other appropriate committees of the County Commission in summary annually or more often as determined by the Finance Director. Additionally, a report of missing assets shall also be reported to the Financial Management Committee and other appropriate committees of the County Commission in summary annually or more often as determined by the Finance Director.

### *Year-end closing procedures*

All assets acquired on or before June 30 shall be recorded in the fixed asset database. Appropriate year-end reports shall be generated from the fixed asset database and reconciled to the general ledger.